Hugh Russel Inc.

1978

INDEX

Highlights	2
Letter to Shareholders	3
Performance Review	4
Financial Highlight Charts	5
Metals Group	7
Home Products Group	9
Power Transmission Group	11
Engineering Group	13
Auditors' Report	14
Consolidated Statement of Financial Position	15
Consolidated Statement of Earnings and Retained Earnings	16
Consolidated Statement of Changes in Financial Position	17
Notes to Consolidated Financial Statements	18
Ten-Year Financial Summary	22
Corporate Directory	24

HIGHLIGHTS

	1978	1977	Change
Sales	$ 427,772,000	$ 338,739,000	+ 26%
Earnings	$ 9,168,000	$ 4,085,000	+124%
Earnings Per Common Share	$3.15	$1.25	+152%
Cash Flow Per Common Share	$3.95	$2.09	+ 89%
Total Assets at Year-end	$ 215,479,000	$ 179,583,000	+ 20%
Earnings to Average Common Shareholders' Equity	17.6%	7.6%	
Capital Expenditures	$ 1,465,000	$ 1,617,000	− 9%
Total Common Shareholders	2,555	2,425	
Dividends Paid Per Common Share	64 cents	64 cents	

LETTER TO SHAREHOLDERS

Business activity in Canada has shown remarkable buoyancy throughout 1978 in spite of serious economic uncertainties which continue to over-shadow North American markets.

The devaluation of the Canadian dollar has made imports less attractive. In addition, a regulatory system was introduced in both Canada and the United States which effectively limited steel imports at artifically low prices. These factors have substantially reduced competition from overseas countries on a broad range of products.

At the same time, the exchange rate of the Canadian dollar relative to the U.S. dollar has made it possible for Canadian manufactured goods to be sold competitively to the United States and abroad. The resulting increase in Canadian exports has stimulated industry right across the country.

All elements of Hugh Russel Inc. responded well to the opportunities inherent in this environment. The Metals Group showed remarkable gains, as did the Engineering and the Power Transmission Groups. The Home Products Group showed profit gains in areas where reorganization has been completed while continuing the process of reorganization in other areas. Overall, sales were at record levels for the third successive year and profit results were the second highest in the Corporation's history.

While Hugh Russel Inc. has important and growing activities in the field of engineered products, the main business is that of the distributor, where a wide variety of products are purchased in bulk and subsequently sold in smaller quantities to industry, to contractors and to retail firms and merchants. This requires an organization capable of identifying the product needs of the marketplace, expertise in inventory management and the ability to deliver product to the customer when and where he wants it.

The year 1978 saw important progress made in terms of expansion into new markets and new product development. Notable in this regard is the expansion of the Metals Group into the United States through the opening of a branch in Buffalo, New York and the purchase of International Alloy Steel of Cleveland, Ohio. The Power Transmission Group also extended and strengthened its distribution network in the United States.

The Engineering Group distinguished themselves by recording their first sales of a new line of equipment for the manufacture of steel wire rope. The equipment has been well received by primary steel makers in the United States. The Engineering Group has also established a new marketing organization headquartered in West Germany, which is developing worthwhile equipment orders from customers in Europe, Africa and Australia.

The relatively favourable business conditions of 1978 would appear to be continuing into 1979. With economic fundamentals, at least in the short run, less than favourable however, it is virtually impossible to predict what lies beyond the next several months with any degree of confidence. Hopefully, the emergence of a trend toward more responsible fiscal and monetary policies by governments will continue for a sufficient length of time to begin to repair the damage done in the past by uncontrolled public sector spending. If this happens we can look forward to a renewed era of prosperity in the 1980's.

A. D. Russel
Chairman

J. P. Foster
President

Toronto, Ontario,
March 16, 1979

Picture left: A. D. Russel, Chairman, and J. P. Foster, President.

PERFORMANCE REVIEW

Sales and Earnings

Consolidated net sales were at record levels for the third successive year and, at $427,772,000 were up by 26% from the $338,739,000 reported in 1977.

Consolidated net earnings for 1978 were $9,168,000, compared to earnings of $4,085,000 recorded last year. Earnings were 2.1% of sales, compared to 1.4% last year, indicating a return to a more normal profit performance.

After providing for preferred dividends, earnings attributable to the common shares were $3.15, compared to $1.25 in 1977.

U. S. Market

1978 saw the continuing development of operations in the United States where sales now exceed U.S. $40 million per year. With the base of operations now established by the Metals Group, the Engineering Group and the Power Transmission Group, we would expect the U.S. market to account for a growing contribution in sales and profits.

An advantage in U.S. operations is the acceptance of L.I.F.O. (Last-in-first-out) inventory accounting for tax purposes, which importantly improves cash flow during inflation. L.I.F.O. is not allowed under Canadian tax laws.

Sales — U.S. Operations

1974	U.S.$ 7,042,000
1975	U.S.$ 8,349,000
1976	U.S.$ 24,654,000
1977	U.S.$ 34,900,000
1978	U.S.$ 40,000,000

Dividends

Changes in the Federal Income Tax Act have caused the Corporation to amend its dividend payment procedures. In place of the tax deferred dividend on the Class B shares, which is no longer possible, the Corporation will now offer a stock dividend payable on the Class B shares. While different in form, this new mechanism will enable interested shareholders to continue to defer income tax through the use of the stock dividend. Beginning with the March 15, 1979 payment, dividends on Russel common shares will be available either in cash on the Class A shares as before, or in a stock dividend of substantially equivalent value on the Class B shares.

On December 21, 1978, the Board of Directors increased the quarterly cash dividend from 16¢ to 17.5¢, an increase of 9%. At the same time, a stock dividend of 1.4 Class B common shares was declared payable on each 100 shares of Class B stock held.

It is worth noting that this is the eighth dividend increase since 1971 and maintains a compound annual rate of growth in dividend distribution of 17%, a rate which roughly reflects the underlying long term growth trend of the Corporation's common share earnings.

Total common and preferred dividends paid in 1978 amounted to $2,640,000, or 29% of net earnings.

Financial Position

The Corporation continues to be in a sound financial position. Cash flow in 1978 was $10,274,000, or $3.95 per common share, compared to $5,465,000, or $2.09 per share last year. Working capital, at $42,365,000, compared favourably with the $38,960,000 in working capital reported at the end of 1977.

Total assets at year-end stood at $215,479,000, an increase of 20% over the $179,583,000 in assets at the end of 1977. Common shareholders' equity at the end of 1978 was $49,701,000, up 14% from the $43,474,000 reported in the previous year. Total shareholders' equity was 28% of total assets at year-end 1978, compared to 30% at year-end 1977, and a long term average of 29%.

At the end of 1978, the Corporation had bank lines with Canadian chartered banks and financial institutions in the United States totalling $87,135,000, of which $11,300,000 was unused at year-end.

Sales by Quarter ($000's)

Quarter	1978	1977	1976	1975	1974
First	91,329	72,659	56,457	48,088	54,235
Second	111,254	88,288	73,660	47,763	66,723
Third	110,784	87,360	81,514	43,139	67,748
Fourth	114,405	90,432	77,533	60,308	74,094
TOTAL	427,772	338,739	289,164	199,298	262,800

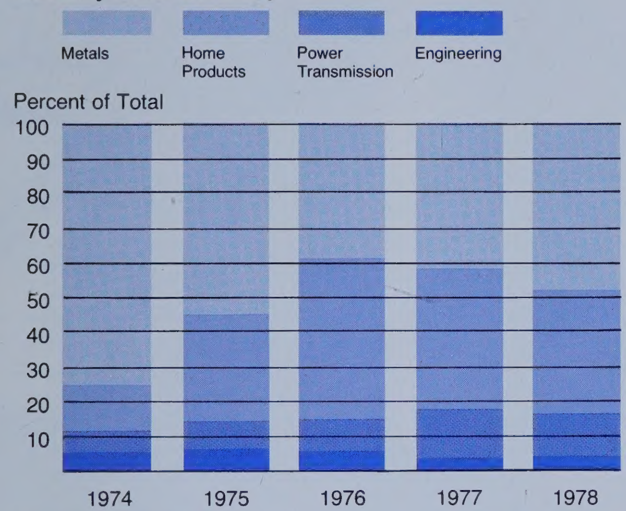
Earnings per Common Share (Fully Diluted)

Quarter	1978	1977*	1976	1975	1974
First	.22	.03	.21	.55	1.61
Second	.95	.46	.46	.32	1.97
Third	.96	.36	.26	.43	1.57
Fourth	1.02	.40	(.05)	.53	.90
TOTAL	3.15	1.25	0.88	1.83	6.05

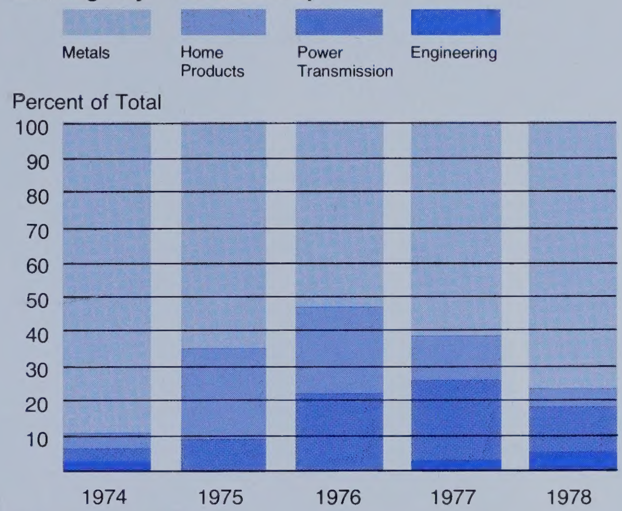
*Before extraordinary items.

FINANCIAL HIGHLIGHTS

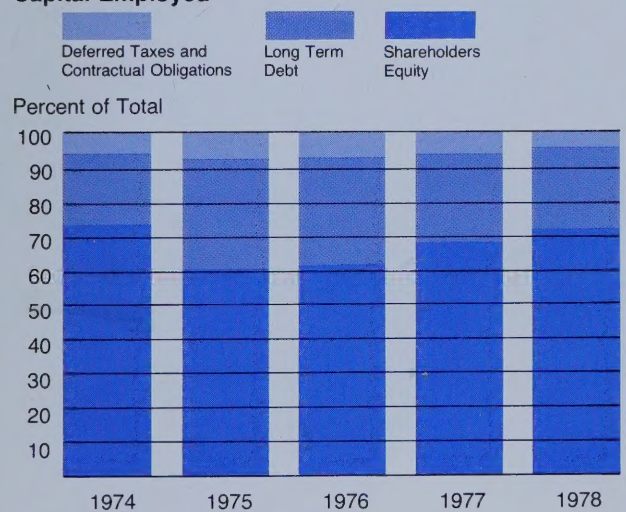
Sales by Product Group



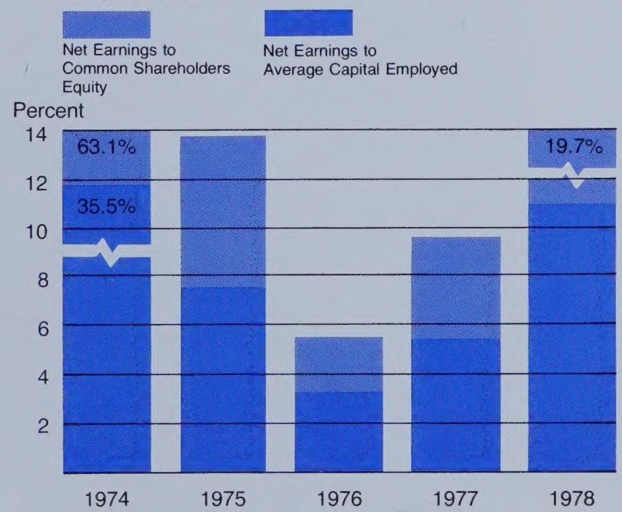
Earnings by Product Group



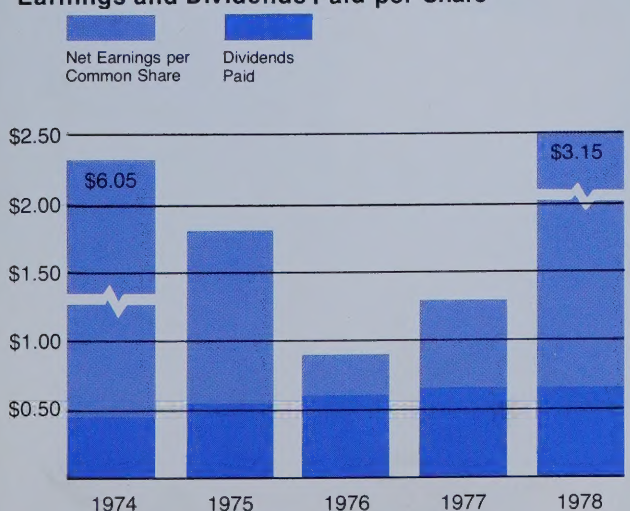
Capital Employed



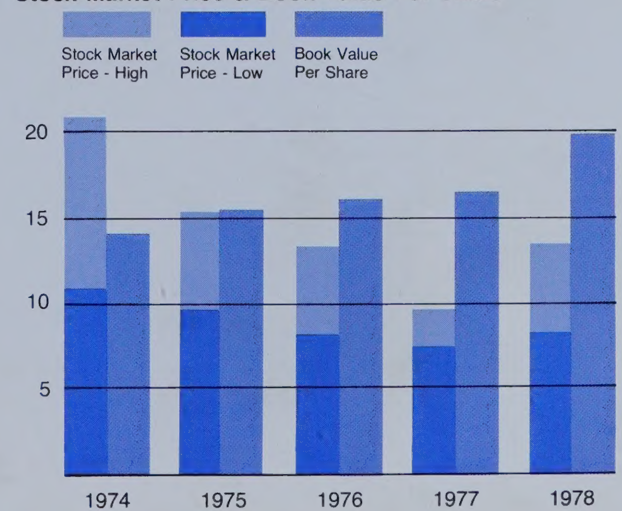
Return on Investment



Earnings and Dividends Paid per Share



Stock Market Price & Book Value Per Share



METALS GROUP

Through its three principal operating divisions — Russelsteel, Vincent Steel, and St. Laurent Steel — the Metals Group is a major Canadian distribution organization with steel service centres strategically located across the country. The Group carries complete inventories of carbon steel, stainless, tubular, alloy and other specialty steel products used throughout industry for manufacturing and maintenance purposes. All plants have modern, efficient equipment to process steel products to exacting customer specification.

Over the years, the profit performance of the Metals Group has consistently been among the highest in the Canadian steel service centre industry. The past twelve months were no exception. Operating profits for the Metals Group in 1978 of $13,504,000 were significantly ahead of the $5,342,000 earned in 1977. Sales of $208,434,000 were 46% ahead of last year.

During 1978, the Metals Group made a number of key moves in expanding its operating base. The Russelsteel Division opened a new branch in Debert, Nova Scotia to improve service to the Atlantic Provinces, which were previously supplied out of Montreal. This division also opened a branch in Buffalo, to serve Upper New York State, Northern Pennsylvania and parts of Ohio.

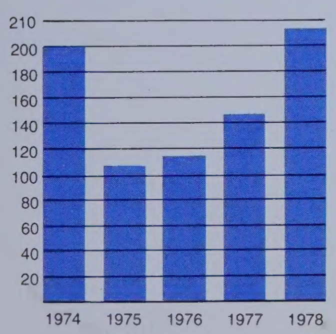
In November, 1978, Russel acquired the International Alloy Steel Division of Curtis-Noll Corporation. Based in Cleveland, Ohio, International Alloy Steel operates service centres in Cleveland and Clearfield, Utah, and maintains 22 sales offices in the United States and one in Canada. In addition to a range of specialty steels, International has exclusive rights to a patented, abrasion-resistant steel plate sold under the trade name FIRMEX. This plate has many applications, particularly in the extractive industries where resistance to wear is an important requirement.

These moves are part of a plan established by the Metals Group to assure its continued, profitable growth in both Canada and the United States. The management, organization and resources to execute this plan are in place or well defined. The Group looks forward to a new phase in its long history of profitable growth.

Operating Highlights	**1978**	1977	Change
Sales ($)	**$208,434,000**	142,375,000	+ 46%
Operating Profit* ($)	**13,504,000**	5,342,000	+153%
Operating Profit to Sales (%)	**6.5**	3.8	—
Per Cent of Corporate Total			
Sales	**48.7**	42.0	—
Operating Profit	**76.4**	61.3	—

*Earnings before income tax and corporate services expense.

METALS GROUP
Sales Summary
(Millions of dollars)



HOME PRODUCTS GROUP

The Home Products Group encompasses three distinct distribution activities: distribution to industrial customers; wholesaling to the retail trade and retail merchandising. Three operating divisions coordinate activities and development in each area.

The Industrial Division operates in three diversified product fields; first, the supply of hardware, electrical, plumbing, heating and air-conditioning products and building materials to industrial concerns and the construction industry; second, the supply of products and equipment used by janitorial service contractors in the maintenance and upkeep of industrial and commercial buildings; and third, the supply of specialized valves and telemetering equipment for the nuclear power and petrochemical industries.

Each product field represents a long established activity with a proven record of profitability.

The Wholesale Division supplies hardware, sporting goods and building materials to the retailer. Serving this increasingly sophisticated market has required the development of customer aids, such as computer based direct order entry facilities and inventory management and sales assistance programs. Where new systems and management structure are in place, sharply improving results are being achieved.

The Retail Division operates a chain of 11 Home Service Centres in the Maritimes, under the name of Halliday Craftsmen. This division reaped the benefits of the reorganization efforts of the past two years, and has made strong gains in market position and profitability during the year. Building on this growing strength, the division is now in an excellent position to capitalize on any improvement in the market in this area.

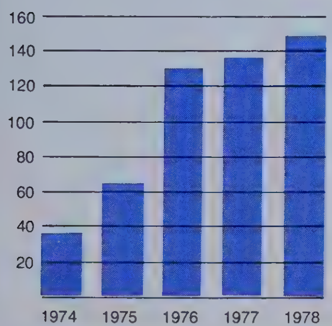
The Home Products Group recorded sales of $148,610,000 in 1978, an increase of 8% over 1977 sales of $137,783,000.

Essential reorganization has held Group profits to nominal levels during the past several years. Group management is of the opinion that important improvements in overall profitability will begin to emerge in 1980.

Operating Highlights	**1978**	1977	Change
Sales ($)	**148,610,000**	137,783,000	+ 8%
Operating Profit* ($)	**909,000**	1,082,000	−16%
Operating Profit to Sales (%)	**0.6**	0.8	—
Per Cent of Corporate Total			
Sales	**34.8**	40.7	—
Operating Profit	**5.1**	12.4	—

*Earnings before income tax and corporate services expense.

HOME PRODUCTS GROUP
Sales Summary
(Millions of dollars)




SKF

POWER TRANSMISSION GROUP

The Power Transmission Group — through its two principal operating divisions, Canadian Bearings Co. Limited, and TEK Bearing Company, Inc. — distributes over 100,000 factory warranted items from stock, including ball, roller and other anti-friction bearings, power transmission components, lubricants and related accessories. The Group also supplies an expanding line of electrical, pneumatic and fluid power transmission components and products.

Over-the-counter service is provided along with rapid delivery to industrial plants from a network of 23 branches covering the North-Eastern United States and 16 branches serving Ontario and Quebec. Technical service and parts are provided to industry for scheduled plant maintenance, as well as for the manufacture of original equipment. In addition, all Power Transmission branches are equipped to respond to emergency situations on a 24-hour basis.

During the year, Canadian Bearings opened a new branch in Sarnia to strengthen its sales and service capability in the important markets in South-Western Ontario and to the petrochemical industry.

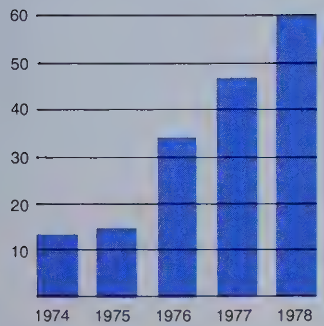
Inventory control operations at the central warehouse in Toronto were improved to provide more efficient product service to branches. TEK Bearings opened a new 20,000 square foot regional warehouse in Philadelphia to serve the ten most southerly TEK branches and two new branches were opened, one in Philadelphia and the other in Waterville, Maine.

During 1978 the Power Transmission Group continued to grow in sales and profits, recording sales of $59,576,000, an increase of 25% over the $47,547,000 reported for 1977. Operating profits at $2,383,000 were ahead of the $2,205,000 earned in 1977 by 8%.

Operating Highlights	**1978**	1977	Change
Sales ($)	**59,576,000**	47,547,000	+25%
Operating Profit* ($)	**2,383,000**	2,205,000	+ 8%
Operating Profit to Sales (%)	**4.0**	4.6	—
Per Cent of Corporate Total			
Sales	**13.9**	14.0	—
Operating Profit	**13.5**	25.3	—

*Earnings before income tax and corporate services expense.

POWER TRANSMISSION GROUP
Sales Summary
(Millions of dollars)




WICAMA
CEECO

ENGINEERING GROUP

The Engineering Group designs and manufactures wire and cable machinery used in the electrical, telecommunications and steel wire rope industries.

Much of the equipment is patented and has been developed under Canadian government sponsored plans to enhance the efficiency, productivity and safety of existing technology.

The Engineering Group has manufacturing plants in Canada and in the United States. Equipment is also manufactured and sold in Brazil and Mexico through joint venture arrangements.

A highlight for the year was the 1978 International Wire Exhibition held in Basel, Switzerland, where a prototype orbital strander was shown for the first time. Based on a new Ceeco patented principle, this machine was one of the major attractions of the Basel Exhibition and was judged to be an outstanding process innovation. Several significant contracts have been signed from enquiries obtained at the exhibition.

Wicama Handels GmBH, with headquarters in Dusseldorf, Germany was established to develop business outside the Western Hemisphere. Wicama has already booked substantial business in Europe, Africa and Australia.

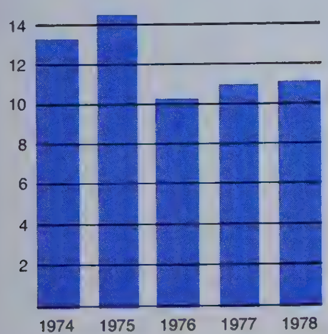
Results for 1978 reflect the impact of these initiatives. Engineering Group sales at $11,152,000 were about equal to last year. Over 75% of sales were made to customers located outside of Canada. Operating profits at $871,000 showed a significant gain from the $86,000 earned in 1977.

With expanded geographic market coverage and a new product line successfully introduced to the primary steel industry, the Engineering Group anticipates a continuation of progress through 1979.

Operating Highlights	**1978**	1977	Change
Sales ($)	**11,152,000**	11,034,000	+ 1%
Operating Profit* ($)	**871,000**	86,000	—
Per Cent of Corporate Total			
Sales	**2.6**	3.3	
Operating Profit	**4.9**	1.0	

*Earnings before income tax and corporate services expense.

ENGINEERING GROUP
Sales Summary
(Millions of dollars)



AUDITORS' REPORT

Clarkson, Gordon & Co.

Chartered Accountants

To the Shareholders of
Hugh Russel Inc.:

We have examined the consolidated statement of financial position of Hugh Russel Inc. as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For Hugh Russel Inc. and those subsidiaries of which we are the auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada,
January 29, 1979.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1978 (with comparative figures as at December 31, 1977)

	1978	1977
	(thousands of dollars)	
Current assets:		
Accounts receivable	$ 79,153	$ 62,334
Inventories	92,247	74,496
Prepaid expenses and other assets	4,364	3,282
	175,764	140,112
Current liabilities:		
Bank indebtedness (note 2)	77,184	64,909
Accounts payable and accrued charges	49,888	30,642
Income taxes payable	4,333	1,924
Contractual obligations due within one year (note 10)	1,586	3,187
Long term debt due within one year (note 5)	408	490
	133,399	101,152
Working capital	42,365	38,960
Other assets:		
Fixed assets (note 3)	23,719	24,773
Premiums on acquisitions and patent	14,281	12,949
Long term investments and advances	1,367	1,546
Deferred income taxes	348	203
	39,715	39,471
Capital employed	$ 82,080	$ 78,431
Represented by:		
Contractual obligations (note 10)	$ 2,150	$ 3,245
Long term debt (note 5)	18,801	20,367
Deferred gain (note 11)	1,020	1,117
Deferred foreign exchange gains	408	228
	22,379	24,957
Shareholders' equity —		
Share capital (note 6)	20,037	20,137
Contributed surplus	79	79
Retained earnings	39,585	33,258
	59,701	53,474
Capital employed	$ 82,080	$ 78,431

(See accompanying notes)

On behalf of the Board:

A. D. Russel, Director

J. P. Foster, Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS for the year ended December 31, 1978 (with comparative figures for 1977)

	1978		1977	
	(thousands of dollars except per share figures)			
		%		%
Sales — metals	$ 208,434	48.7	$ 142,375	42.0
— power transmission	59,576	13.9	47,547	14.0
— home products	148,610	34.8	137,783	40.7
— engineering	11,152	2.6	11,034	3.3
Total sales	427,772	100.0	338,739	100.0
Cost of sales	336,525	78.6	266,234	78.6
Gross profit	91,247	21.4	72,505	21.4
Operating expenses other than depreciation and interest	64,075	15.0	55,263	16.3
Earnings from operations before deducting the following:	27,172	6.4	17,242	5.1
Depreciation	2,079	.5	2,177	.6
Interest on short term borrowings	6,634	1.6	5,363	1.6
Interest on long term debt	2,281	.5	2,613	.8
Earnings before income taxes, amortization and extraordinary items	16,178	3.8	7,089	2.1
Income taxes	6,766	1.6	2,792	.8
Amortization of premiums on acquisitions and patent	244	.1	212	.1
Earnings before extraordinary items	9,168	2.1	4,085	1.2
Extraordinary items	—	—	354	.1
Net earnings for the year	9,168	2.1	4,439	1.3
Retained earnings, beginning of year	33,258		31,848	
	42,426		36,287	
Deduct:				
Dividends paid on preferred shares	975		819	
Dividends paid on common shares (including dividends on Class B shares and for 1977 special tax thereon)	1,665		1,672	
Share repurchase	201		—	
Preferred share issue expenses	—		538	
Retained earnings, end of year	$ 39,585		$ 33,258	
Earnings per common share				
Net earnings for the year	$ 9,168		$ 4,439	
Preferred dividends	975		819	
Earnings attributable to common shares	$ 8,193		$ 3,620	
Earnings per common share — before extraordinary items	$ 3.15		$ 1.25	
Earnings per common share — after extraordinary items	$ 3.15		$ 1.39	

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION for the year ended December 31, 1978 (with comparative figures for 1977)

	1978	1977
	(thousands of dollars)	
Working capital was obtained from:		
Operations —		
Earnings before extraordinary items	$ 9,168	$ 4,085
Items not requiring working capital:		
Depreciation	2,079	2,177
Deferred income taxes	(145)	(190)
Amortization of premiums on acquisitions and patent	244	212
Amortization of deferred gain	(97)	—
	11,249	6,284
Disposals of fixed assets	588	2,091
Issue of preferred shares	—	10,000
Issue of other long term debt	—	236
Reduction in investments and advances	401	54
Deferred foreign exchange gain	180	228
Utilization of prior years' tax losses	—	331
Common shares issued under the employee share purchase plan	17	2
	12,435	19,226
Working capital was applied to:		
Acquire businesses	5,260	2,075
Less working capital obtained	4,046	1,249
	1,214	826
Purchase fixed assets	1,465	1,617
Increase premiums on previous acquisitions	510	365
Reduce contractual obligations	1,095	2,749
Reduce long term debt	1,566	1,503
Purchase common shares for cancellation	318	—
Pay dividends	2,640	2,491
Preferred share issue expenses	—	538
Deferred taxes on sale and leaseback	—	536
Long term advances	222	625
Other	—	34
	9,030	11,284
Increase in working capital	3,405	7,942
Working capital, beginning of year	38,960	31,018
Working capital, end of year	$ 42,365	$ 38,960

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1978

1. Accounting Policies

These financial statements have been prepared on the basis of information available up to January 29, 1979.

The following is a summary of the significant accounting policies followed by Hugh Russel Inc. in the preparation of the consolidated financial statements.

(a) Principles of consolidation —

The accompanying financial statements include the accounts of Hugh Russel Inc. and all subsidiaries.

(b) Foreign currency translation —

The accounts of foreign subsidiaries and foreign currency balances have been translated into Canadian dollars as follows:

(i) Current assets and current liabilities, at exchange rates prevailing at year end;

(ii) Depreciation and non-current assets and liabilities at exchange rates prevailing on the dates of acquisition;

(iii) Revenues and expenses (other than depreciation) at average rates during the year.

Cumulative unrealized net gains on translation, amounting to $408,000 ($228,000 in 1977) have been deferred.

(c) Inventories —

Inventories are stated at the lower of cost and net realizable value. Canadian subsidiaries determine cost on a first-in, first-out (FIFO) or an average cost basis. United States subsidiaries determine cost on a last-in, first-out basis (LIFO).

(d) Depreciation —

Depreciation is calculated on a straight line basis except in the Home Products Group where depreciation is calculated on a declining balance basis. The rates of depreciation are:

	Home Products Group	Other Groups
Buildings	5% and 10%	2½% to 10%
Machinery and equipment	20%	10% and 20%

(e) Premiums on acquisitions —

Premiums on acquisitions made prior to April, 1974 are carried at cost, without amortization, unless the related business is sold, is determined to have a limited life or suffers a decline in value that is other than temporary. Premiums paid on acquisitions subsequent to April, 1974 are being amortized equally over forty years.

2. Bank indebtedness

Accounts receivable and inventories have been pledged against bank indebtedness.

3. Fixed assets

	1978			1977
	Cost	Accumulated Depreciation	Net	Net
Land	$ 4,550,000	$ —	$ 4,550,000	$ 4,819,000
Buildings	19,405,000	5,389,000	14,016,000	14,991,000
Machinery and equipment	13,471,000	8,318,000	5,153,000	4,963,000
	$37,426,000	$13,707,000	$23,719,000	$24,773,000

4. Acquisition

Effective October 1, 1978, a subsidiary acquired the assets of the International Alloy Steel division of Curtis-Noll Corporation, a distributor of specialty steels located in Cleveland, Ohio. The transaction has been accounted for by the purchase method. The assets acquired were as follows:

Tangible assets and patent, at book values	$3,130,000
Adjustments to reflect fair values	2,130,000
Total cash consideration	$5,260,000

5. Long term debt

	1978	1977
Hugh Russel Inc.		
Secured sinking fund debentures		
$6\frac{1}{4}$% Series A, maturing 1985	**$ 1,336,000**	$ 1,395,000
$9\frac{1}{2}$% Series B, maturing 1991	**2,500,000**	2,605,000
$8\frac{1}{2}$% Series C, maturing 1993	**4,100,000**	4,500,000
11% Series D, maturing 1995	**9,030,000**	9,153,000
	16,966,000	17,653,000
Subsidiary Companies		
Sumner Company Limited		
$6\frac{1}{2}$% general mortgage bonds, maturing 1984	**446,000**	505,000
Mortgages and other long term liabilities	**1,797,000**	2,699,000
	19,209,000	20,857,000
Less payments of principal due within one year, included in current liabilities	**408,000**	490,000
TOTAL	**$18,801,000**	$20,367,000

Maturities and sinking fund requirements for the years 1979 through 1983 are:

1979	$ 408,000
1980	$ 647,000
1981	$ 831,000
1982	$ 833,000
1983	$1,035,000

The Series A, B, C and D debentures are secured by a first mortgage on the fixed assets and by a first floating charge on the remaining assets of the Corporation.

At December 31, 1978, the Corporation satisfied all the requirements and general conditions of the debenture trust deeds, including those relating to payment of dividends.

6. Share Capital

(a) Authorized:

The Corporation is authorized to issue:

(i) 1,750,000 First Preferred Shares of which 500,000 have been designated as $9\frac{3}{4}$% Cumulative Redeemable First Preferred Shares, Series B. These shares are entitled to a dividend of $1.95 per share per annum.

The shares are not redeemable before February 10, 1982, but will be redeemable thereafter at prices varying between $21.40 and $20.00. Prior to February 10, 1982, the shares may be purchased for cancellation at a price not exceeding $21.95.

(ii) An unlimited number of Class A and Class B common shares. These shares are interconvertible on a share-for-share basis at the holder's option.

(b) Issued:

At December 31, 1978, the issued share capital comprised:

(i) *First Preferred Shares:*

500,000 First Preferred Shares, Series B, issued for $10,000,000.

(ii) *Common Shares:*

Number of Shares			
Class A	Class B		
1,930,677	682,721	Outstanding at December 31, 1977	$ 10,137,000
7,285	—	Shares issued under the provisions of the Employees' Share Purchase Plan	17,000
(30,200)	—	Repurchased by the Corporation	(117,000)
(10,735)	10,735	Net transfers between classes	—
1,897,027	693,456	Outstanding at December 31, 1978	$ 10,037,000

During 1978, the Corporation purchased and cancelled 30,200 Class A common shares for $318,000 cash, of which $117,000 was deducted from share capital and $201,000 was charged to retained earnings.

7. Indebtedness to the Corporation and subsidiaries

(a) The Corporation is authorized to provide loans to a trustee for the purchase of shares of the Corporation for the benefit of senior officers (who may be directors) specified by the Board of Directors. At December 31, 1978, the Corporation had advanced a total of $236,000 to the trustee pursuant to this plan.

(b) The Corporation has made non-interest bearing loans to nine employees, one of whom is an officer, to assist them upon relocation to purchase living accommodation for their occupation, while employed by the Corporation. The loans, amounting to $634,000 at December 31, 1978, are repayable over five or ten year terms and are secured by first mortgages.

8. Anti-inflation legislation

Under the Anti-Inflation Act, the application of which was phased out at various dates to December 31, 1978, the Corporation and its Canadian subsidiaries were subject to mandatory compliance with controls on prices, profits, employee compensation and shareholder dividends.

In the opinion of management, the Corporation has complied with the Act and its regulations.

9. Classes of business

The Board of Directors has determined that the Corporation's classes of business, determined by reference to the Corporation's operating groups, are metals distribution, power transmission distribution, home products distribution and engineering and manufacturing and this has been recorded in the minutes.

10. Commitments

(a) Under the terms of the agreements to purchase certain subsidiaries, the purchase price is payable in annual instalments which in some cases is based on the earnings of the acquired subsidiary in the five years subsequent to acquisition. The Corporation has made full provision for amounts payable under these agreements, based on results of the subsidiaries to December 31, 1978. Based on forecast earnings, it is estimated that additional payments will amount to approximately $1,400,000.

(b) Payments are required on contractual obligations as follows:

1979	$ 1,586,000
1980	$ 1,577,000
1981	$ 227,000
1982 and thereafter	$ 346,000

(c) The Corporation has entered into lease agreements, primarily for warehouse and office space, which expire in various years between 1979 and 2000. Most have renewal options at rates to be negotiated. Payments for the next five years are:

1979	$ 1,782,000
1980	$ 1,589,000
1981	$ 1,244,000
1982	$ 909,000
1983	$ 832,000

11. Deferred gain

During 1977, a subsidiary entered into a sale and leaseback of its machinery and equipment, which resulted in a gain of $1,174,000. This gain, net of applicable taxes, is being amortized over the ten year life of the lease.

12. Remuneration of directors and officers

The aggregate direct remuneration paid by the Corporation to its directors and senior officers, including its five highest paid employees, amounted to $935,000 in the year.

Consolidated Financial Information

Ten Year Summary

For Canadian Capital gains tax purposes, the Valuation Day Value of Hugh Russel Inc. shares on December 22, 1971, as established by the Department of National Revenue, was $4.50.

Operating Results (thousands)	1978	1977
Sales	$427,772	$338,739
Earnings before deducting depreciation, interest on long term debt, minority interest and income taxes	$ 20,538	$ 11,879
Depreciation	$ 2,079	$ 2,177
Interest on long term debt	$ 2,281	$ 2,613
Income taxes	$ 6,766	$ 2,792
Minority interest	—	—
Amortization of premiums on acquisitions and patent	$ 244	$ 212
Earnings(1)	$ 9,168	$ 4,085
Per Share of Common Stock(1)		
Based on average common shares outstanding (thousands)	2,600	2,613
Earnings — fully diluted	$ 3.15	$ 1.25
Cash flow	$ 3.95	$ 2.09
Dividends paid	$ 0.64	$ 0.64
Book value	$ 19.19	$ 16.64
Market price — High	$ 13.25	$ 9.88
Market price — Low	$ 8.50	$ 7.50
Operating Statistics(1)		
Earnings to sales	2.1%	1.2%
Earnings to average common shareholders' equity	17.6%	7.6%
Earnings to average capital employed	11.4%	5.3%
Financial Ratios		
Total shareholders' equity to total assets	27.7%	29.8%
Current assets/total assets	82.6%	78.0%
Sales/working capital	10.1	8.7
Sales to total assets	2.0	1.9
Current assets/current liabilities	1.3	1.4
Long term debt interest coverage	8.1	3.7
Other Statistics		
Capital expenditures (thousands)	$ 1,465	$ 1,617
Total dividends paid (thousands)	$ 2,640	$ 2,491
Total dividends to earnings	28.8%	61.0%
Number of common shareholders	2,555	2,425
Number of shares traded (thousands)	670	289
Balance Sheet Data (thousands)		
Current assets	$175,764	$140,112
Current liabilities	$133,399	$101,152
Working capital	$ 42,365	$ 38,960
Fixed assets	$ 23,719	$ 24,773
Long term debt	$ 18,801	$ 20,367
Shareholders' equity	$ 59,701	$ 53,474
Capital employed	$ 82,080	$ 78,431
Total assets	$215,479	$179,583

(1) After adjusting for stock splits and before extraordinary items.

1976	1975	1974	1973	1972	1971	1970	1969
$289,164	$199,298	$262,800	$130,391	$ 99,106	$ 67,350	$ 61,113	$ 49,819
$ 9,569	$ 13,418	$ 34,198	$ 13,887	$ 5,838	$ 2,967	$ 2,670	$ 2,413
$ 1,835	$ 1,531	$ 1,228	$ 864	$ 738	$ 604	$ 513	$ 310
$ 2,785	$ 1,889	$ 1,026	$ 986	$ 526	$ 359	$ 179	$ 148
$ 2,587	$ 5,228	$ 16,281	$ 5,969	$ 2,182	$ 1,006	$ 1,052	$ 1,072
—	—	—	—	—	$ 34	$ 42	$ 40
$ 75	$ 16	—	—	—	—	—	—
$ 2,287	$ 4,754	$ 15,663	$ 6,068	$ 2,392	$ 964	$ 884	$ 843
2,601	2,574	2,502	2,108	1,326	1,266	1,254	1,254
$ 0.88	$ 1.83	$ 6.05	$ 2.35	$ 1.17	$ 0.49	$ 0.46	$ 0.53
$ 1.35	$ 2.61	$ 6.76	$ 3.24	$ 2.36	$ 1.13	$ 0.98	$ 0.77
$ 0.58	$ 0.50½	$ 0.40¼	$ 0.30¾	$ 0.22¾	$ 0.20	$ 0.20	$ 0.20
$ 16.36	$ 15.92	$ 14.79	$ 9.29	$ 6.24	$ 4.70	$ 4.31	$ 3.98
$ 13.00	$ 15.13	$ 21.00	$ 15.50	$ 13.00	$ 4.94	$ 5.56	$ 5.50
$ 8.25	$ 9.75	$ 11.88	$ 10.00	$ 3.88	$ 3.25	$ 3.75	$ 3.94
0.8%	2.4%	6.0%	4.7%	2.4%	1.4%	1.4%	1.7%
5.5%	12.1%	52.6%	38.1%	29.0%	13.2%	12.9%	15.1%
2.7%	7.8%	35.5%	18.3%	12.2%	5.9%	6.9%	9.1%
25.5%	30.0%	32.7%	35.8%	23.7%	25.4%	25.6%	36.8%
76.6%	76.2%	79.7%	78.0%	79.8%	75.6%	75.6%	78.4%
9.3	5.4	9.1	6.1	8.9	7.3	9.5	8.1
1.8	1.5	2.3	2.0	2.0	1.8	1.8	2.2
1.3	1.6	1.5	1.8	1.5	1.5	1.3	1.5
2.8	6.3	32.1	13.2	9.7	6.5	11.8	13.9
$ 4,331	$ 2,107	$ 3,539	$ 1,094	$ 1,177	$ 825	$ 1,230	$ 437
$ 1,509	$ 1,306	$ 1,036	$ 794	$ 505	$ 468	$ 465	$ 365
66.0%	27.5%	6.6%	13.1%	21.1%	48.5%	52.6%	43.3%
2,372	2,481	2,209	1,975	1,204	837	798	760
440	428	976	1,024	1,083	184	354	392
$126,300	$104,680	$ 91,997	$ 50,096	$ 39,480	$ 27,524	$ 25,728	$ 17,659
$ 95,282	$ 67,733	$ 62,958	$ 28,545	$ 28,293	$ 18,339	$ 19,271	$ 11,523
$ 31,018	$ 36,947	$ 29,039	$ 21,551	$ 11,187	$ 9,185	$ 6,457	$ 6,136
$ 25,078	$ 20,330	$ 12,774	$ 9,869	$ 8,635	$ 6,875	$ 6,637	$ 3,584
$ 21,063	$ 21,738	$ 11,665	$ 11,170	$ 6,515	$ 5,282	$ 2,541	$ 2,292
$ 42,062	$ 41,257	$ 37,790	$ 23,027	$ 11,736	$ 9,268	$ 8,706	$ 8,287
$ 69,642	$ 69,689	$ 52,513	$ 35,698	$ 21,205	$ 18,087	$ 14,780	$ 10,993
$164,924	$137,422	$115,471	$ 64,243	$ 49,498	$ 36,426	$ 34,051	$ 22,516

Corporate Directory

Hugh Russel Inc.
Head Office:
8 King Street East
Toronto, Ontario M5C 1B5
Telephone: (416) 863-1964

Registrar and Transfer Agent
Common and Preferred shares:
Montreal Trust Company, Toronto, Montreal, Winnipeg, Regina, Calgary, Vancouver

General Counsel
J. D. Reilly, Q.C.

Auditors
Clarkson, Gordon & Co.

Stock Exchanges
Common shares:
Montreal and Toronto

Preferred shares:
Toronto

Board of Directors

A. D. Russel*
Toronto, Ontario
Chairman of the Board, Hugh Russel Inc.

J. P. Foster
Toronto, Ontario
President, Hugh Russel Inc.

M. D. Glenn
Thornhill, Ontario
Chairman, Metals Group
Hugh Russel Inc.

R. Hartog*
Perkinsfield, Ontario
President, Waltec Enterprises Ltd.

K. D. Mooney*
Islington, Ontario
President, Quaker State Refining Co. of Canada Limited

J. D. Reilly, Q.C.*
Toronto, Ontario
Partner, Hill, Friend & Reilly

G. D. Shearer, C.A.
Toronto, Ontario
Vice-President Finance, Russelsteel Division
Hugh Russel Inc.

G. T. Urquhart
Moncton, New Brunswick
President, Home Products Group
Hugh Russel Inc.

J. W. Vingoe*
Weston, Ontario
President, Hauserman Ltd.

Corporate Officers

A. D. Russel
Chairman and Chief Executive Officer

J. P. Foster
President

M. D. Glenn
Vice-President

J. D. Reilly, Q.C.
Secretary

J. S. Smith, C.G.A.
Treasurer

G. T. Urquhart
Vice-President

Operating Group Executives

Metals Group

M. D. Glenn, Chairman
W. P. E. Mang, Executive Vice-President & General Manager

Home Products Group

G. T. Urquhart, President
J. M. O'Sullivan, Executive Vice-President

Power Transmission Group

J. B. Adams, President

Engineering Group

A. Varga, President
R. G. Rossi, Executive Vice-President

**A member of the Audit Committee*